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**REPORT TO THE LEGISLATIVE OVERSIGHT COMMITTEE
ON ELECTRIC RESTRUCTURING**

RESULTS AND EFFECTIVENESS OF THE SYSTEM BENEFITS CHARGE

October 1, 2007

The New Hampshire Public Utilities Commission hereby submits to the Legislative Oversight Committee on Electric Restructuring its annual report on the results and the effectiveness of the system benefits charge (SBC).¹ The SBC is a charge assessed on all electric customers to fund public benefits related to the provision of electricity. The current SBC is \$0.003 or 3 mills per kilowatt-hour (kWh). Funds collected through this charge are divided between energy efficiency and low income assistance programs, with 1.8 mills per kWh devoted to energy efficiency and the remaining 1.2 mills per kWh allocated to the low income energy assistance program or EAP. In 2006, however, based on passage in 2005 of Senate Bill 228 (Chapter 298, NH Laws of 2005), funds for energy efficiency were reallocated to the temporary emergency assistance program for low-income electric customers. The reallocation affects the 2007-2009 energy efficiency budgets for both New Hampshire Electric Cooperative and Public Service Company of New Hampshire. Their 2007 energy efficiency budgets were reduced by \$86,112 and \$935,077, respectively.

Energy Efficiency

Energy efficiency programs are offered to residential, commercial and industrial customers of each of the state's electric utilities, that is, Unil Energy Systems, National Grid (Granite State Electric Company), New Hampshire Electric Cooperative and Public Service Company of New Hampshire. The two principal goals of the program are to achieve cost effective energy savings and to transform the market for energy efficiency measures.

The SBC-funded energy efficiency programs consist of a "CORE" set of programs that are similar across all service territories and which constitute the vast majority of the program expenses. Each utility also offers a few non-CORE energy efficiency programs specific to its own service territory. The CORE programs, the result of a collaborative effort, began in June 2002. Since then, they have provided savings to over 275,000 customers. The programs are

¹ This report is filed pursuant to RSA 374-F:4,VIII (f). The SBC is authorized by RSA 374-F:3,VI and RSA 374-4,VIII.

expected to save approximately 4.3 billion kilowatt-hours over the lifetime of the measures and were installed at a utility cost of approximately 2.0 cents per kWh.

The table below provides an overview of the 2006 CORE programs.

2006 CORE NH Energy Efficiency Program Highlights

(January 1 - December 31, 2006)

NH CORE ENERGY EFFICIENCY PROGRAMS	EXPENSES (\$)		SAVINGS (Lifetime kWh)		NUMBER OF CUSTOMERS	
	Actual + In Process + Prospective	Percent of Budget	Actual + In Process + Prospective	Percent of Budget	Actual + In Process + Prospective	Percent of Budget
RESIDENTIAL						
ENERGY STAR Homes	\$1,317,697	79%	7,953,177	244%	689	96%
Home Energy Solutions	\$1,892,301	100%	43,331,944	161%	1,454	139%
Home Energy Assistance	\$2,381,908	108%	26,585,496	153%	1,202	121%
ENERGY STAR Lighting	\$1,187,431	83%	85,381,975	125%	266,959	204%
ENERGY STAR Appliances	\$1,006,630	118%	47,699,903	166%	15,112	119%
TOTAL RESIDENTIAL	\$7,785,967	97%	210,952,495	146%	285,416	195%
COMMERCIAL & INDUSTRIAL						
Small Business Energy Solutions	\$2,676,658	113%	146,589,267	153%	841	141%
Large Business Energy Solutions	\$3,582,208	97%	372,818,046	149%	254	98%
New Construction	\$2,529,260	73%	204,361,530	136%	217	90%
TOTAL COMMERCIAL & INDUSTRIAL	\$8,788,126	92%	723,768,843	146%	1,312	119%
TOTAL	\$16,574,093	94%	934,721,338	146%	286,728	194%

As indicated in the table, the budget is divided between residential programs and commercial and industrial (C&I) programs. Program budgets are allocated to residential and C&I customers in proportion to their respective SBC payments, except that all customers contribute equally to the Home Energy Assistance program that provides weatherization and energy efficiency measures for low-income customers, often in coordination with and as a supplement to US Department of Energy Weatherization Assistance funding administered by the Office of Energy and Planning and Community Action Agencies. The C&I customers receive approximately \$1 million more in budgeted program expenses than do the residential customers, however, the C&I customers account for almost 80% of the lifetime energy savings. Both classes of customers are expected to exceed by 46% the savings that were budgeted for the 2006 programs. It also is worth noting that overall residential and C&I programs came in under their 2006 budgeted expenses.

The 2007 CORE programs also are performing well based on results through the first six months of 2007 (see table below). Two residential programs, Energy Star Homes and Home Energy Solutions, have achieved significant energy savings thus far. The Energy Star Homes program is targeted toward improving the energy efficiency of new single and multi-family residential housing by at least 20% over homes constructed to the 2006 International Energy Conservation Code. Home Energy Solutions provides single family and multi-family households with basic services, such as insulation, weatherization, and appliance and lighting upgrades, which improve the energy efficiency of New Hampshire's existing housing stock.

2007 Year-to-Date CORE NH Energy Efficiency Program Highlights (January 1 - June 30, 2007)

NH CORE ENERGY EFFICIENCY PROGRAMS	EXPENSES (\$)		SAVINGS (Lifetime kWh)		NUMBER OF CUSTOMERS	
	Actual + In Process + Prospective	Percent of Budget	Actual + In Process + Prospective	Percent of Budget	Actual + In Process + Prospective	Percent of Budget
RESIDENTIAL						
ENERGY STAR Homes	\$1,124,603	85%	8,608,100	561%	531	103%
Home Energy Solutions	\$920,493	50%	30,379,710	136%	845	89%
Home Energy Assistance	\$1,336,600	64%	14,479,469	83%	694	72%
ENERGY STAR Lighting	\$854,807	65%	78,062,921	86%	247,504	98%
ENERGY STAR Appliances	\$544,352	64%	29,505,259	93%	7,210	59%
TOTAL RESIDENTIAL	\$4,780,855	64%	161,035,459	98%	256,784	96%
COMMERCIAL & INDUSTRIAL						
Small Business Energy Solutions	\$1,856,971	60%	73,765,810	77%	352	58%
Large Business Energy Solutions	\$3,692,958	112%	268,494,509	146%	293	153%
New Construction	\$2,509,280	91%	105,457,810	102%	173	104%
TOTAL COMMERCIAL & INDUSTRIAL	\$8,059,209	88%	447,718,130	117%	818	85%
TOTAL	\$12,840,063	77%	608,753,589	111%	257,602	96%

An important focus of the 2007 programs was the qualification through ISO-NE of the kW (demand) savings associated with the energy efficiency programs. The demand reduction due to the energy efficiency programs will be eligible to compete against supply options in the ISO-NE forward capacity market (FCM), scheduled to begin in February 2008. Significant resources were devoted to certifying the demand reduction value associated with the programs both for the transition period of the FCM as well as certifying the level of demand reduction the programs can qualify for in the upcoming FCM auction. Each utility submitted its qualification package to ISO-NE by the due date of June 15, 2007. ISO-NE has reviewed the packages. Qualification letters from ISO-NE stating how much capacity value the programs will be eligible

to bid into the auctions are expected back in early October 2007. The New Hampshire utilities sought qualification for a total demand reduction value of 21.4 MW. The value of the 21.4 MW will be determined in the auction, but it should be worth at least \$1 million annually.

As described above, the programs to date have exceeded expectations with respect to the first goal, cost-effective energy savings. With much of the auction work now complete, the focus on market transformation can continue. New Hampshire has achieved national recognition for its successful programs, especially in the areas of Energy Star Homes and Energy Star appliance sales. It is also important to note that one program in particular, the residential Home Energy Assistance (HEA) program, which serves low income customers in New Hampshire, has received recognition from the American Council for an Energy-Efficient Economy (ACEEE) as an exemplary low-income energy efficiency program.

The 2008 CORE programs proposal was filed with the Commission on September 28, 2007, and will be reviewed in Docket No. DE 07-106.

Low Income Program

RSA 374-F:4, VIII (c) authorizes the funding of the low income electric assistance program through the system benefits charge at a rate of up to 1.5 mils per kWh. Effective August 24, 2007 the sunset of this authority, which had been scheduled for June 30, 2008, was repealed by HB 119 (Chapter 208, NH Laws of 2007). Customers of National Grid, New Hampshire Electric Cooperative, Public Service Company of New Hampshire and Unitil Energy Systems support the low-income program through a Commission approved 1.2 mils per kWh charge on electric bills.

In May 2002, the New Hampshire Public Utilities Commission approved a statewide tiered discount low income electric assistance program. Designed to reduce the electric bills of participating customers to 4% of income on average for non-electric heat customers and 6% of income on average for electric heat customers, the program provides long term bill assistance to income eligible customers. The program, which began on October 1, 2002, completed its fifth year of operation on September 30, 2007.

On June 2, 2006, the Commission opened a proceeding to consider possible changes to the low income electric assistance program in advance of October 1, 2006, the start of the next program year. On September 1, 2006, the Commission approved a new design for the electric assistance program, which calculated benefit amounts based on the participant's income and household size, using federal poverty guidelines (FPG) as the determining factor in the amount of benefit. The new program continued to provide benefits through a tiered discount structure. The benefits provided to customers are targeted based on need such that the largest percentage discount would be applied to the bills of customers in the lowest FPG group and the lowest discounts to the bills of customers in the highest FPG group.

As a result of the program design change, more than 14,800 customers were moved from the waiting list and enrolled in the EAP on October 1, 2006. The new program design adopted

by the Commission anticipated an enrollment of 30,000 customers based on a projected annual average benefit between \$390 and \$400. Due to increases in electricity prices over the past year, the average annual benefit is currently closer to \$420 however. Consequently, the number of customers to whom the EAP can provide benefits today is approximately 27,000. In March 2007, a waiting list for the program was established. As of September 25, 2007 there were approximately 1,400 customers on the waiting list. As a result of normal program attrition, between 800 and 1200 customers are moved from the waiting list and enrolled in the EAP each month.

From October 1, 2006 to August 31, 2007, the low income portion of the system benefits charge generated \$11,943,357 in revenue. An additional \$24,596 of interest was paid by the utilities on the program reserve balances held for total funding over the 11-month period of \$11,967,953. During the same time frame, discounts totaling \$10,631,032 were applied to customer bills.

Between October 1, 2006 and August 31, 2007, \$1,563,507 was paid out in administrative costs. Those costs included 2006/2007 program year costs as well as \$59,129 of administrative costs incurred during the 2005/2006 program year which were paid in the 2006/2007 program year, and \$24,339 for software changes required to accommodate the program redesign.

The budget for administrative expenses for the period October 1, 2006 through September 30, 2007 was \$1,563,507.45 or 11.6% of the projected program funding of \$13,479,445 for the 12 month period. As of August 31, 2006, there was a fund balance in the account held by the State Treasurer of \$830,857 and a reserve balance of \$500,000. Based on projections for the upcoming program year, the fund balance will drop below \$400,000 by April 2008.

On January 17, 2007 the Commission opened a proceeding, Docket No. DE 07-009, to investigate administrative costs and processes of the EAP. The Commission expects to issue an order in the matter soon.

As of September 25, 2007, 26,379 households were enrolled in and receiving benefits from the electric assistance program. At the same time, there were 1,414 customers on the waiting list.

Poverty Level	Number of Households Enrolled as of 9/25/2007	Number of Households on Waiting List as of 9/25/2007
Under 75%	5,869	63
76% - 100%	5,683	197
101% - 125%	5,497	327
126% - 150%	4,704	325
151% - 175%	3,550	366
176% - 185%	1,076	136
Total	26,379	1,414